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## Ifo Economic Climate for the Euro Area

Advance results of the Ifo World Economic Survey (WES) of the 2<sup>nd</sup> quarter 2008, in co-operation with the International Chamber of Commerce (ICC), Paris

### Euro Area: Further Drop in the Ifo Economic Climate Indicator

**The Ifo Economic Climate in the euro area has worsened again in the second quarter of 2008 for the third time in succession, falling to its lowest level in five years. The decline in the Ifo indicator is the sole result of less positive assessments of the current economic situation. The economic expectations for the coming six months, although still in negative territory, have not worsened further.**

The economic climate has become cloudier in the second quarter of 2008 in all countries of the euro area. In *Italy, France, Portugal* and *Spain*, the current economic situation has been assessed particularly negatively, but in the majority of euro countries, the appraisals of the current economic situation remain in positive territory. In the coming six months, the slowing of economic activity will continue in all the countries of the euro area, in the opinion of the WES experts.

Inflation expectations, at 2.9% on average for 2008, are even more clearly above the inflation target of the European Central Bank than at the beginning of the year (2.5%). Nevertheless, in the opinion of the WES experts, key interest rates will decline somewhat in the course of the next six months; capital market rates are expected to increase slightly.

The *US dollar* continues to be seen as even more strongly undervalued vis-à-vis the *euro*; nevertheless, in the coming six months a further, albeit only slight, weakening of the *US dollar* is expected. Also the *Japanese yen* continues to be seen as undervalued. The *British pound* is now regarded nearly fairly valued.

Hans-Werner Sinn, President of the Ifo Institute for Economic Research at the University of Munich

### Euro area (Index, 1995 = 100)

Quarter/year	II/06	III/06	IV/06	I/07	II/07	III/07	IV/07	I/08	II/08
<b>Climate</b>	103.4	101.7	97.5	100.0	106.8	111.9	90.7	81.4	76.3
<b>Situation</b>	97.2	108.4	125.2	129.0	130.8	138.3	123.4	112.1	100.9
<b>Expectations</b>	108.5	96.1	74.4	76.0	86.8	89.9	63.6	55.8	55.8

The Ifo World Economic Survey (WES) investigates world-wide economic trends by polling transnational as well as national organisations in different countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. The full set of results will be published on 20 May 2008.

The 2<sup>nd</sup> quarter 2008 euro area results, which are published here in advance, are based on the responses of 254 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris.

Fig. 1

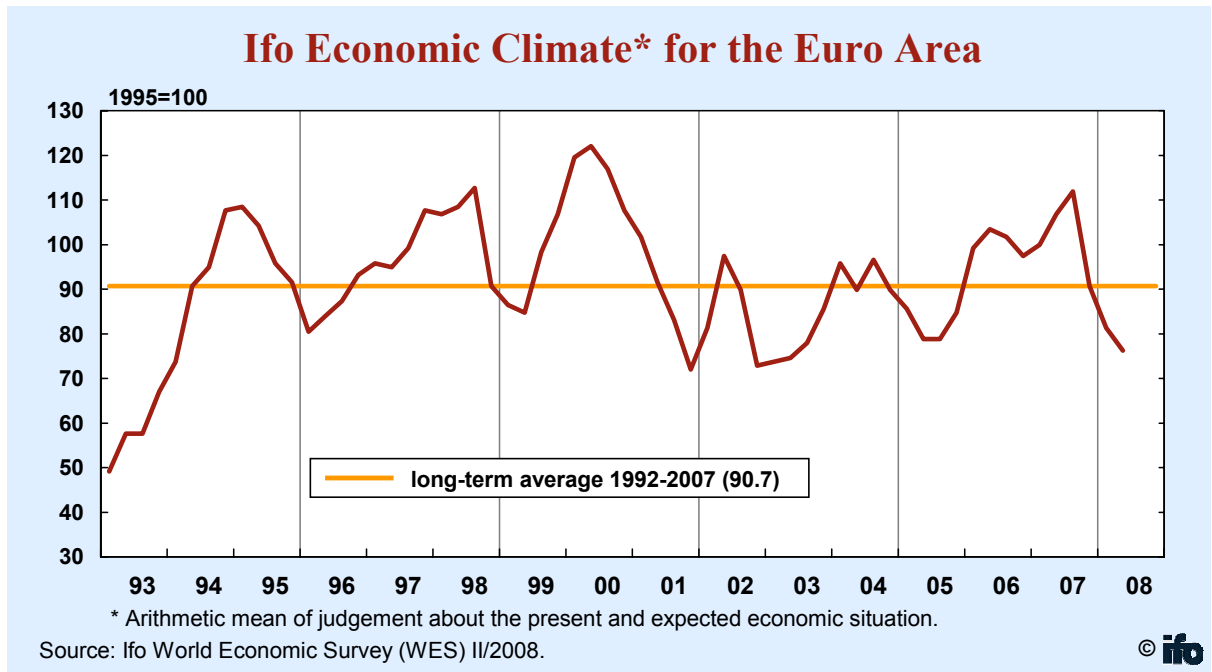


Fig. 2

